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FINANCE AND ACCOUNTING OUTSOURCING OUTCOMES  
IN A CASE COMPANY

Degree Programme in International Business  
2015

# RAHOITUKSEN JA KIRJANPIDON ULKOISTAMISEN SEURAUKSET KOHDEYRITYKSESSÄ

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Kansainvälisen kaupan koulutusohjelma  
Marraskuu 2015  
Ohjaaja: Maijala, Johanna  
Sivumäärä: 40  
Liitteitä: 1

Asiasanat: ulkoistaminen, rahoitus, kirjanpito, seuraus

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Tutkimus toteutettiin kohdeyrityksen talousyksikölle kohdeyrityksen pyynnöstä. Tavoitteena oli löytää rahoituksen ja kirjanpidon palveluiden ulkoistamisesta syntyneet seuraukset sekä haasteet kohdeyritykselle. Kyseisten löydöksiä perusteella kohdeyritykselle laadittiin ehdotuksia, joiden avulla kohdeyritys voi parantaa toimintaansa. Löydöksiä saamista varten suoritettiin neljä haastattelua kohdeyrityksen tiiloissa. Haastatteluissa selvisi, että ulkoistaminen on tuottanut useita haasteita kohdeyritykselle.

Tutkimus toteutettiin laadullisena tutkimuksena. Pääpaino tässä työssä oli työn suorittamiseen liittyvissä seurauksissa eikä taloudellisissa näkökulmissa. Suurin osa tutkimuksessa käytetyistä lähteistä ovat sähköisiä lähteitä, sillä kyseisestä aiheesta ei löydy juurikaan kirjallisia lähteitä.

Teoria osuus tässä työssä koostui kahdesta pääkappaleesta. Ensimmäisessä kappaleessa käsiteltiin yleisesti ulkoistamista ja toinen kappale keskittyi rahoituksen ja kirjanpidon ulkoistamiseen. Työn empiirisen osan aineisto kerättiin puolistrukturoidusta teemahaastatteluista. Empiirisessä osassa tarkasteltiin haastattelijoiden vastauksia ja niiden perusteella tehtiin parannusehdotuksia kohdeyritykselle.

Hyödyntämällä tutkimuksessa esitettäviä parannusehdotuksia sekä keskittämällä resursseja haasteiden eliminoimiseen kohdeyritys kykenee saavuttamaan tehokkaamman toimintakyvyn.

# FINANCE AND ACCOUNTING OUTSOURCING OUTCOMES IN A CASE COMPANY

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Degree Programme in International Business

November 2015

Supervisor: Maijala, Johanna

Number of pages: 40

Appendices: 1

Keywords: outsourcing, finance, accounting, outcome

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This thesis was conducted by the request of the Case Company's Finance services. The subject was to find all the outcomes of the outsourcing the Finance and Accounting services have aroused. Based on those findings, suggestions were made for the Case Company in order to improve their performance.

The focus of the thesis was in outcomes that are more related on performing instead of numeric outcomes. In order to find the outcomes there were four semi-structured theme interviews conducted.

Theory part of this Thesis consists of two chapters. The first chapter dealt with Business Process outsourcing in general and the second chapter was about Outsourcing Finance and Accounting Services. The purpose of these chapters was to give a proper understanding on business process outsourcing and finance and accounting outsourcing.

The Empirical part of this thesis described the outcomes that services that have been outsourced. Qualitative research methodology was chosen as the best method to gather information for the research part. After interviewing all the participants a summary was made and some suggestions on behalf of me.

With the suggestions that are presented in the end of this study, the Case Company can improve their performance.

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## List of Abbreviations

BPO	Business Process Outsourcing
FAO	Finance and Accounting Outsourcing
HR	Human Resources
F&A	Finance and Accounting
BOT	Build-Operate-Transfer
CFO	Chief Financial Officer
CEO	Chief Executive Officer
GL	General Ledger
AR	Accounts Receivable
AP	Accounts Payable
SLA	Service Level Agreement
B2B	Business to Business
EDI	Electronic Data Interchange

## 1 INTRODUCTION

Nowadays the competition in the economics is extremely challenging and there are many businesses that have strived for success, but ended in failure. Possible reasons for failures can be increases in competition in the market or the businesses suffering from the lack of skilful workforce or resources. Businesses CEOs and CFOs are constantly seeking new ways to expand their businesses in order to achieve advantages against competitors. Business Process Outsourcing is something that would release the pressure from the manager's backs.

Business Process Outsourcing was created to solve challenges inside the companies' processes. It started with manufacturing companies that outsourced just part of their supply chain. After a while businesses started to realise the advantages that BPO brings for the business and the usage of outsourcing expanded into other categories such as human resources (HR) and finance and accounting (F&A). Outsourcing would be a great way to achieve higher performance or reduce the workload for businesses that are constantly having too much work in line.

The theoretical part of this thesis begins with an introduction to business process outsourcing. The reasons behind outsourcing, how the business benefits from it and the three different ways to outsource are explained later on. After that there will be an introduction to finance and accounting outsourcing, which is the main topic of this thesis. Before looking into more detailed finance and accounting outsourcing there is a short company presentation and the case that is the reason behind this thesis.

The empirical part of the study is concentrated on finding the outcomes of the outsourced finance and accounting function. What kind of advantages and disadvantages regarding the functions outsourcing have been observed within the Case Company. In the end there will be recommendations for possible improvements.

## 2 PROBLEM SETTING AND CONCEPTUAL FRAMEWORK

### 2.1 Purpose and objectives of the thesis

The purpose of this thesis is to help the Case Company to develop their process and increase their performance. With the results that will be presented in the end of this thesis the Case Company can improve their operations.

The objective of this thesis is to find out the outcomes of the business process outsourcing. In order to accomplish the objective, following research problems were created:

- What are the pros and cons of outsourcing business processes?
  - What are the reasons to outsource?
  - What are the outcomes of outsourcing finance and accounting services?

With the help of these previously mentioned research questions I will be able to outline the research topic and find enough useful information to fulfil the purpose of this thesis.

## 2.2 Conceptual Framework

The conceptual framework describes the outline of this thesis. It is a mix of the theoretical and empirical concepts. It eases the researcher to stay on track and provides guidance for other readers. (Magher n.d)

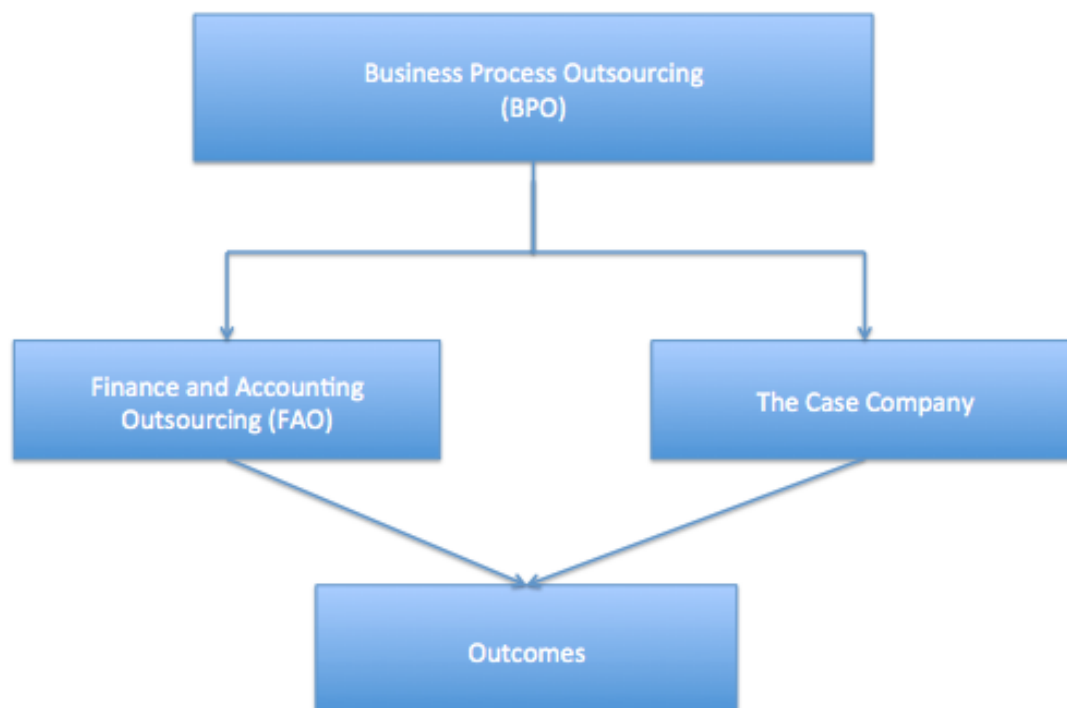


Figure 1. Framework of the thesis

Figure 1 presents the framework of this thesis. It is based on the main topics of this thesis and the order how this thesis is presented. The theoretical part consists of two parts that are business process outsourcing (BPO) and finance and accounting outsourcing (FAO). It begins with the definition of the BPO. Explaining the reasons and effects of outsourcing and the three different ways to outsource. The second part of the theory describes the FAO and its lifecycle.

After that follows the empirical part of this thesis that is focused on the parts of the finance and accounting services that the Case Company has outsourced. The last part of this thesis will detail the outcomes that have occurred in consequence of the outsourcing.



### 3 BUSINESS PROCESS OUTSOURCING (BPO)

#### 3.1 Generally

Outsourcing business process (BPO) is defined as a movement of an in-house business process to an external provider. Moving functions from inside the firm to an external vendor to focus more on core-competence. For instance outsourcing a customer-service unit to another company to achieve better service quality or save money. (Duening & Click 2005, 1-2)

In the beginning BPO was only used with manufacturing companies, which outsourced parts of their supply chain. Due to an enormous development in technology, BPO has become a wider and bigger process. Now it contains also complicated functions with lot of liabilities such as Human Resources (HR) and Finance and Accounting (F&A). (Kimmel 2015)

Nowadays BPO is a huge industry and it keeps growing bigger and bigger. In the year 2013 the global BPO industry market size was \$304 billion and it is expected to growing approximately 6 per cent per year. (Fersht, Walker & Dubiel 2013, 12) ISS, Accenture and CBRE form the top three of the best outsourcing service providers in 2014. (The 2014 Global... 2014) And Asian pacific has the best BPO locations in the industry. With cheap labour force that is still highly educated and fluent in English makes India the clear number one in the industry. (Kimmel 2015)

#### 3.2 Reasons for outsourcing

It all started with the lack of skill inside the company. Companies realised that they do not have enough skill to success and they began to seek solutions outside of the firm. After a while companies started to realise that they could get better skilled people with less money. Differences between skilled people mattered less and money started to play a bigger role, like nowadays. (Duening & Click 2005, 7-8) Another reason behind BPO is people's thoughts to make the world an even better place. People are not satisfied with what we currently have. Everyone wants to have a united

world and remove all the limits between countries. (Duening & Click 2005, 1-2) Still the biggest drivers to BPO are the owners and business executives who praise BPO to eliminate parts that are not supporting BPO. Focus on core competence is the only thing that matters. The following figure presents the three key reasons to outsource.

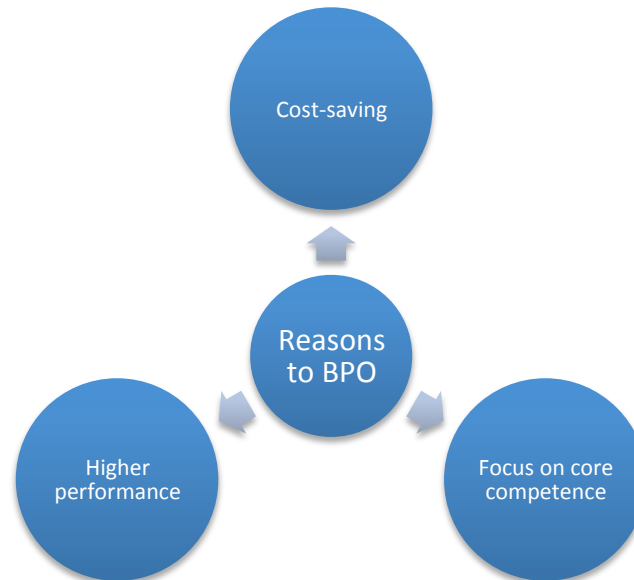


Figure 2 Main reasons for adopting BPO. (Patel & Aran 2005, 19)

As it is stated in the above figure there are many reasons to outsource. The competition in all fields of business is extremely hard nowadays and in order to survive companies need to find new ways to be successful. Reducing costs is one reason to BPO, because it allows the company to save money or use it in different functions. (Patel & Aran 2005, 19)

By outsourcing the non-core operations, the productivity will increase and the higher level of management will have more time to focus on core competence. This will keep the company competitive and the non-core operations will get the needed professional attention. (Patel & Aran 2005, 20)

Having a shared infrastructure removes all the limitations that a company suffers. With common facilities, technology and staff the client has all the needed factors in order to increase the efficiency and achieve higher performance. (Patel & Aran 2005, 21)

### 3.3 Outsourcing options

BPO started with outsourcing IT and over the years it has changed into a situation where everything that can be outsourced will be outsourced. It is not anymore just a manufacturing job that is outsourced. More skilled people are ready to show their skills. Even sophisticated tasks such as: Financial Analysis, Software Design, Tax preparation, Making newsletters and Power Points etc. have changed. Nowadays the most common outsourced functions are Back-Office functions such as: Payroll and Benefits Administration, Customer Service, Call Center and Technical Support. (Duening & Click 2005, 2-3)

Considering BPO it is good to know the three different types of BPOs: Offshore, Onshore and Nearshore. The differences between these types of BPO are that there are different functions in different locations (Duening & Click 2005, picture page 24). It always depends on the need of the buyer's company which type should be used. In some cases a mix of these types would be a great way to achieve the BPO goals. (Duening & Click 2005, 23)

#### 3.3.1 Offshore

Outsourcing offshore means moving a part of the business process to an external service provider that is geographically located in a different country. Looking for the best outcome, offshore is the kind of type where the possibilities for highest rewards exist. By offshoring companies can reach over 25 to 40 per cent cost cutting. (Duening & Click 2005, 23-24) Outsourcing offshore fits best for the companies that are outsourcing functions that have small or no effect on the businesses or customers. Or just seeking the lowest possible costs. (Simon 2015)

However with high reward comes high risk. Moving part of business into an external provider presents lot of challenges. One of it are cultural and language differences. Though nowadays English is spoken almost in every country, there are still some different meanings and variations that lead to misunderstandings. (Young 2014)

When outsourcing a part of the business the client gets what it is paying for. This means that the vendors are doing just what they are told to do. Some of the vendors' employees are eager to work and show their skills that means more results in a faster pace. But it also might show as a lack of initiative, because nobody is expecting them to do any extra work. (Simon 2015; Young 2014)

In order to achieve the best quality from the vendors' side, the client needs to treat vendor's employees, as they would be their own. Giving regular feedback of the work helps both sides to develop and maintain a good relationship that will lead to better results. (Young 2014)

The biggest challenge in offshore outsourcing is the time difference. Working with a vendor that is located in a totally different time zone makes the communication really hard. To get in touch with the vendor is not happening in a flash, or not even during the same day. If there is a need for an update or correction in the process the client needs to wait for the next day in order to get it fixed from the vendors' side. Lag in response is a huge disadvantage in offshore outsourcing. Communication is a big part of the business and it affects the performance and efficiency of the operations. (Simon 2015; Young 2014)

In case the company can handle these challenges it will attain the following benefits that offshore outsourcing provides for the client. Reduction in overhead costs is one of the main benefits, even though the salaries in the low-cost labour countries are increasing. The vendor will provide everything that is needed to expand the business, including: software, staff, workspace, infrastructure and the needed technology. And the client is only responsible for paying for the job that has been done. (Hayes 2014; 4 Reasons offshore... 2015)

In addition to saving money there will be more time to focus on the core competence. Once the vendor takes control of the outsourced process the client's staff will have more time on focusing on the core competence. Which results in better performance and higher efficiency. (Young 2014)

In case the traditional model of offshore does not match with the companies' requirements or it just does not fit for the function there are two other approaches to offshore. (Duening & Click 2005, 24)

The first different way to offshore is called offshore insourcing. In offshore insourcing an organisation buys an offshore company specialising in a certain business process. After acquisition the buyer will manage the offshore company roughly a year and then move it to internal control. It is a quite secure way to have an offshore company, but it requires more investments. (Duening & Click 2005, 23-25)

The second way to outsourcing offshore is Build-Operate-Transfer (BOT). A company contacts a third party vendor that will basically establish a whole new company. The vendor will take care of everything from acquiring a real estate to dealing with the legal issues. The client's only role is to pay an operating fee once it is done. Benefit of the BOT is that it allows the client to focus on core competence instead of operational issues. For the vendor's side BOT is not a quite fair deal, because the client has an option to pay a buy-out fee that releases the provider and brings the function in-house. (Maughan & Ford 2015, 2-3; Kalakota & Robinson 2004)

### 3.3.2 Onshore

Companies that are not seeking high rewards or ready to take big risks are usually choosing onshore outsourcing, because it is outsourcing inside the same country. Usually companies are outsourcing onshore their payroll or customer services to gain a competitive advantage, better quality and of course cost-savings. (Duening & Click 2005, 25-26)

Onshore outsourcing is becoming more popular every day, because the wages in low-cost labour countries are increasing. It is even stated that the wages in China are now almost the same in the United States. So why not bring the process back in the country of origin. Using onshore outsourcing, the reputation of the company will remain unaffected, because people respect domestic more than foreign business. (Hayes 2014)

Cutting costs is one of the biggest benefits in outsourcing and it is vital to see all the costs including the hidden costs. Onshore outsourcing might not be as beneficial as offshore or nearshore, but you get the proximity what is missing in offshore and nearshore. Being able to supervise, travel and communicate with the vendor in a same day is a huge advantage. And it will also reduce communication and travel costs. (Norman 2011)

Some companies do not trust offshore vendors, because it is so hard to find reliable information about them. There is much more information about domestic vendors and it makes it easier to find a reliable onshore vendor. And finding a reliable vendor is a must for the success of the whole BPO process. (Sareen n.d., slide 3)

Although outsourcing inside the country might not be as cheap as other BPO types in a short-term, but in the long-term it will pay back in a different way. (Duening & Click 2005, 25-26) And there will be no fear of sudden changes, because the client and the vendor will be operating in the same country under the same laws and regulations. (Sareen n.d., slide 7)

Overall onshore is the safest and easiest way to gain the advantages of the outsourcing. Surely it has its differences comparing to offshore and nearshore. But having the benefits without losing the familiar surroundings is something to take into consideration when thinking about outsourcing. (Norman 2011)

### 3.3.3 Nearshore

Nearshore offers the same processes than offshore; the only difference between these two types is that the client and the BPO provider work in the similar time zone. (Cinquegrani n.d.) The outsourcing partner and the client are geographically closely located, contrary to offshore outsourcing. (Nearshoring n.d.) A company based in Poland outsourcing its IT-services to Bulgaria is a good example of nearshore outsourcing.

Operating in the same time zones makes the communication easier, because the business hours are almost the same, even exactly the same. If there is a need to travel between the service provider and the client it will be less painful than in offshoring. Less time and money will be spent on travel, resulting in happier employees and reductions in the costs. (Loveless 2014)

With nearshore outsourcing instead of offshore outsourcing the client does not have to be worried about cultural differences, because usually countries that are geographically close have the same kinds of cultures. Just like in offshore and onshore outsourcing the quality of the services is at least the same than when it was in-house. The provider's employees are especially educated for that job and the people over there are enthusiastic about the job. (Loveless 2014)

In a summary nearshore outsourcing has easier arrangements and it is less-risky comparing to offshore outsourcing. Main reasons to choose this type are to save time and money and to find better quality. (Duening & Click 2005, 26-27)

### 3.4 Outsourcing effects

Throughout the years many lifetime workers have lost their jobs, because of outsourcing. It has raised a lot of opinions and people who have not been able to find a new job after getting fired due to BPO hate it. Although BPO has created negative outcomes, it also has plenty of positive outcomes. Even though BPO has destroyed many people's lives, it has also created a lot of new job opportunities for people who have been waiting for the moment to prove their hard-earned skills. With these opportunities the workers who are willing to adapt to these changes have a chance to achieve prosperity. While factories are being shut down and cities' economies are getting weaker, at the same time many great cities have also been developed. (Duening & Click 2005, 1, 4-6)

Outsourcing a business process is usually attached to losing old employees and replacing them. The fear of the employees losing their jobs due to BPO will raise anxiety that will damage motivation and productivity. All of these might have an effect

on work motivation, morale and productivity. And in the end it will damage the outcome of the employees and will harm the wellbeing of the employees. On top of everything else all of these factors mentioned above would probably have negative effects on the products or services that the company offers. BPO might also damage your company's image and reliability, and the outcome could be a negative impact on sales and profitability. For example, a company which is known for its locally produced products outsources its manufacturing overseas, might see changes in brand positioning. Losing customers, because cutting costs with BPO is not an externally pleasing outcome. Outsourcing a business process without having any major negative consequences is proof a well planned, managed and executed BPO. (Patel & Aran 2005, 133)



## 4 FINANCE AND ACCOUNTING OUTSOURCING (FAO)

### 4.1 Briefly

Outsourcing a part of the company's finance and accounting processes is called finance and accounting outsourcing, better known as FAO. It is used mainly in technology, manufacturing, banking and insurance industry. There are twelve different parts of the company's finance and accounting that can be outsourced. (Mullich 2013; Fersht etc. 2013, 16; Reddy & Ramachandran 2008, 27)

1. Bookkeeping and accounting processes
2. General ledger accounting
3. Accounts payable
4. Fixed assets accounting
5. Reconciliations
6. Inventory management
7. Payroll accounting
8. Taxation
9. Accounts receivable
10. Internal controls
11. Preparation of financial statements
12. Financial reporting/MIS

(Reddy & Ramachandran 2008, 27).

With FAO a company can achieve various advantages from reducing costs to faster turnaround times. There will no need for any expensive investments or training and hiring new staff. Once the vendor has taken over the outsourced process, the client's side will have more time to focus on the core competence that leads to better efficiency and higher performance. (Rajey 2014) North America is the place where FAO is the most widely used and after that comes Continental Europe. (Fersht etc. 2013, 30, 41)

## 4.2 The life cycle

In order to have a successful FAO it is vital to identify all the related challenges, risks and opportunities. The FAO's lifecycle can be divided into three major processes that are:

1. Making the decision
2. Selecting the provider
3. Managing the relationship

These previously mentioned processes do not go in a chronological order, because managing the relationship begins while selecting the provider. And selecting the provider might lead into a decision to not outsource the process, which means that there will not be a relationship. So basically these three processes are in conjunction with each other. (Krell 2007, 5-6)

### 4.2.1 Making the decision

Before outsourcing F&A leaders need to conduct four different evaluations that determine the decision to outsource or not to outsource. With these evaluations the leaders will know if the outsourcing fits with their company's plans and objectives. Before a decision can be made, the strategic drivers behind it must be known. What are the reasons and impacts of the FAO and what the company can miss if it decides not to outsource. Knowing how it will fit with the company's strategy is a vital factor. After identifying the strategic drivers the leaders need to evaluate all the possible options that are available. There are usually three different alternatives that a company can choose. First one is not doing anything, leaving it in the current state. Obviously leaving it in the current state will not change or improve anything. Second option is to improve the processes or moving into an internal shared services. This option is involved with lot of the same challenges and process that are in the outsourcing process. The last option is to outsource the process. Conducting an evaluation of these options, with the most vital results that need to be figured out are the benefits and limitations of these three previously mentioned options. (Krell 2007, 7-9)

Once the evaluation is done the company needs to recognise its internal capabilities. Moving into shared services requires certain amounts of diverse sets of skills and not all companies have it. Not to mention the amount needed in outsourcing a process. Exaggerating the company's internal capabilities in the assessment is not recommended, because it might and will backfire in the future. After all these previously mentioned analyses it is time to determine whether to outsource or not. In addition to choosing to outsource, the company needs to decide what to outsource and what not to. Once all these decisions are made, the next stage is to find and select the right provider. (Krell 2007, 9-11)

#### 4.2.2 Selecting the provider

Finding the right outsourcing provider is not an easy task for a company that has decided to outsource. The success of the outsourcing is highly dependent on the service provider. With the help of decision making –stage choosing the right provider is a slightly easier task, because all the requirements and reasons to outsource are already on the record. (Krell 2007, 12)

First step in selecting the right provider is to create a project team whose tasks are to conduct all the following steps in selecting the right provider. Team members should be picked selectively regarding on their area of expertise. Once the team has formed the task is to find the right providers that are providing the needed expertise. To achieve a more efficient process and better understanding of the providers, the team can make a Request for Information (RFI). Making the RFI requires more time and money, but the end result could lead to a better selection. (Krell 2007, 13-14)

Choosing the right provider is not an easy task and sometimes companies are struggling with the lack of internal expertise in this area. To help the decision making a company can hire outside help in order to choose the right provider. Using external help being cautious is a must, because some advisors might advise to choose their own preferred service providers. The next step is to develop the Request for Proposal (RFP). The RFP should be crystal clear of the process or the processes to be out-

sourced. It is important to make an excellent and detailed RFP, because it will be the first step of communication with the potential service providers and in the end the RFP will lead into signing the contract and making the Service Level Agreements (SLA). After the RFP has been sent to all the potential service providers the company should establish an RFP evaluation process, which is tasked with communicating with the providers that received the RFP. Communicating with providers helps both parties in order to fulfil every little questions concerning about RFP. This step includes also possible meetings and visits with the providers in order to achieve a deeper understanding of how the providers perform. (Krell 2007, 14-17)

The last step in selecting the provider is to confirm all the claims and the information that is stated in the RFP. With this all the misunderstandings can be avoided. This is the last step before any big decisions are made. So it is vital to know everything about the service providers. Contacting companies that are or have been related to the service provider is a good way to get information that has been kept in secret during the whole process. (Krell 2007, 17-18)

#### 4.2.3 Managing the relationship

There are many stories and reasons of how outsourcing projects have failed. A successful relationship requires a lot of resources, energy and time. In particular patience, because sometimes things are not going as planned and in order to solve the problems both parties needs to trust each other. In most cases the way how both parties performs differs with one another and in order to have a successful relationship both parties' employees need to work well together and help each other. (Krell 2007, 18)

Outsourcing relationship can be even compared to marriage. “The success of an outsourcing relationship, like the success of a marriage, hinges on the quality and flow of communication between two distinct entities, as well as both parties' ability to work together to resolve problems and improve the relationship” (Krell 2007, 18).

Every FAO contract is unique and that makes it extremely challenging to negotiate, finalise and manage it. Negotiating the contract and making the service level agreements is highly important and everything needs to be stated clearly. It needs to include detailed descriptions of the processes that will be transferred and remained. The price of the outsourcing processes as well as terms and conditions need to be determined during the last phase of the contract signing. (Krell 2007, 18-19)

Transferring the processes and knowledge is the most hardest and challenging phase in the FAO life cycle. First it will have an immediate impact on the employees. Knowing that you have to adapt to changes, your tasks might change totally and in the worst case employees might lose their jobs. All of this will have an influence on the employee's mind-sets and motivation. To have a successful implementation process a project team needs to be established. A team that will monitor and guide the whole process using deadlines and goals will result in a smooth and successful implementation process. (Krell 2007, 20)

Every FAO process is done for a reason. Seeking efficiency, better performance or cost-savings are the most common reasons. Constant monitoring and managing is required in order to know how the set goals and objectives fulfilled. By documenting and tracking every single action will ease the monitoring. Using qualitative and quantitative methods gives precise results that can be compared to earlier results. In addition to monitoring numbers, meetings with the service provider should be arranged at regular intervals. By this way the client will achieve a better view of the service provider's performance and at the same time it will improve the relationship. In overall good communication and interaction will lead to a long-lasting partnership. (Krell 2007, 21)

The last phase in FAO life cycle is the time when the contract is expiring. At this point the client is facing tough decisions, whether to renew, renegotiate or terminate. Renewing the contract does not require any major actions, but due to the rapid changes and development in the FAO market it is desirable to at least renegotiate the contract. The best way to renegotiate the contract is to give the 'ball' to the provider and let it sell its services to the client. In case terminating is the only solution it needs to be planned before the terminating happens. Taking the processes back in-house

requires almost as much effort or even more effort than outsourcing process. Obviously it can be done smoothly, because it is basically outsourcing backwards. (Krell 2007, 21)

## 5 OUTSOURCED SERVICES

### 5.1 Shortly

The Case Company decided to outsource their Finance and Accounting services including General Ledger, Accounts Payable and Accounts Receivable transactional services to India. (Website of the Service Provider 2015)

The implementation project is the first time when the Case Company is using BPO. It will be a part of the Case Company's new programme that is a strategic transformation programme to improve transparency, lower costs and increase efficiencies through a common solution. The aim of this project is to cut the finance costs in half and also to combine the resources in order to increase the productivity. (Website of the Service Provider 2015)

### 5.2 General Ledger

General Ledger is also called as the Nominal Ledger or The Book of Final Entry. (Black, G & Al-kilani, M 2003, 26; Website of Accounting Tools 2015) General ledger holds the primary records of the financial information of the business over the life of a company. All the needed account information to prepare the financial statement is in the GL. It is a handwritten book or a system, done automatically with accounting software. All the transactions what company does are transferred to the general ledger. General ledger contains a various number of accounts, depending on the size of the company. Cash, AR, AP, inventory and equipment are examples of accounts that can be posted into GL. The postings are done daily, weekly or monthly, depending on the size of the company. GL is mostly used with businesses that use the double-entry bookkeeping method. That means there is always a debit and credit side and it has to be in balance, otherwise there is a data entry error. (Reimers, L. J 2007, 577-578)

Outsourcing general ledger services will bring a lot of benefits for the company. There is no more need for expensive investments such as software or technology.

The outsourcing provider will provide the best software and technology and also skilled staff, so the client does not have to use its own employees. (Top 3 Advantages... 2015) The quality of the services will be the best possible, because you get what you pay. The competition is so hard nowadays in the outsourcing markets so the providers will do everything to keep customers satisfied in order to expand their own business. (Patel n.d.) The work will be also done in the given timeframe and in case of outsourcing to India; client will gain a huge benefit, because of the time difference. There will be no time-delays and the work that has been sent in the end of the day will be ready at on your desk on the next morning. (Patel n.d.; Top 3 Advantages... 2015)

### 5.3 Accounts Payable

It is an account that indicates that how much a company owes its vendors. For instance a company buys their next month raw materials with credit the amount will be posted in AP account. The amounts in the AP are liabilities and those are shown in the balance sheet. (Reimers, L. J 2008, 54) AP is also referred as the Purchases Ledger or the Creditors Ledger. (Black, G & Al-kilani, M 2003, 26)

AP is the most frequently outsourced F&A departments of organisations. Even though it is not a core business activity it requires a lot of skill and work; and those cost a lot of money. (Infinit accounting 2015) According to a study of PayStream Advisors the B2B invoice methods are going towards paperless way and the amount of EDI invoices are also increasing every year. In year 2012 59 per cent of invoices were paper and on the contrary in year 2013 the number was 52 per cent. The decreasing amount of paper invoices is seen as a rise in the percentage of the EDI invoices. The amount of EDI invoices has risen 9-percentage point from 22 per cent to 31 per cent between years 2012 and 2013. The movement towards paperless invoices is real and it is happening all the time. (The Case for... 2014)

When it comes to the time to outsource AP, the company is usually struggling with old technology or lack of capital to upgrade or buy a new technology. For instance there are too many paper invoices that are stacked in a pile and there is not enough



time or resources to process those. Most of the companies are afraid that the implementation process will be too complicated and the transition process will be insurmountably challenging. It might sound reasonable to say that, but nowadays outsourcing vendors are highly experienced and they will take care of the transition process. The outsourcing vendor's side will do moving paper invoices into digital form and even help in assisting the company to enrol the suppliers. All of this is done with years of experience and once it is done there are no more need for maintenance, training staff or painful upgrading costs. (The Case for... 2014)

With outsourcing the AP process the company will have all the invoice receipts in ERP-formatted data. There will be no more paper invoice receipts and the data-entry burden will be gone. This will bring a faster pace and consistent performance and on the top of everything the company will be able to survey these results through SLA. According to PayStream Advisors study there are huge differences between average performance and best-in-class performance. (The Case for... 2014)

Table 2. Best in Class AP department vs. Average Performance (Adopted from Keep Accounts Payable... 2014).

	Average performance	Best In Class
Invoice cycle time	13,5 days	3,3 days
Invoices processed per FTE/month	1 335 invoices	3 559 invoices
Cost per Invoice	\$ 19,10 per invoice	\$ 2,20 per invoice

Using best-in-class AP department a company's invoice costs will reduce almost with 90 per cent, which is a huge percentage. The amount of processed invoices will be almost tripled in a month and the reason behind of it is the extremely shorter invoice cycle time. The biggest benefit is that it releases the AP staff to do other tasks and at the same time the overhead costs will be reduced and the end result will be higher performance with lower costs. (The Case for... 2014)

#### 5.4 Accounts Receivable

When a customer purchases a product or a service from the company with credit the amount is recorded in accounts receivable. The AR indicates the amount of how much customers owe money to the firm. Those amounts in the AR are assets and assets are valuable things for the business. (Reimers, L. J 2008, 56) Reason why companies' sell with credit is that it attracts customers to buy more easily. Sometimes prices are so high that it is almost impossible to pay the whole bill at once and there are also businesses that will not make the payment before they have received the products or service. (Reimers, L. J 2008, 286) AR is also referred as either the Sales Ledger or the Debtors Ledger. (Black, G & Al-kilani, M 2003, 26)

Before outsourcing the AR there is a good question that company can ask for itself: 'Does your company have the internal resources to contact every late customer by telephone within 5 days' (Hartleb n.d.)? And if the answer would be no, then the company should start considering outsourcing the AR. Outsourcing AR suits best for companies that can not keep up with the growth and the work that comes with the growth. Especially small sized companies are recommended to outsource their AR, because in-house collection specialists are usually too expensive to have in the company. Companies that are sales driven and have no focus on credit worthiness should also consider outsourcing to achieve the needed control in AR side. If the company has their sales only in a seasonal cycle, it is extremely challenging to have the needed staff during these peaks. (Hartleb n.d.)

The main benefits that companies are usually seeking with outsourcing AR are the same ones than in outsourcing GL and AP; time and cost saving. With outsourcing

AR function, the AR staff can concentrate on growing the business instead of using their precious time on low-morale work such as printing and sending payments. (Klinger 2012) By Moving the AR process to an outsourcing vendor the client will achieve the best finance and accounting expertise and also highly trained customer service professionals. Together these professionals will collect the payments as fast as possible, which is vital for the company. (Hartleb n.d.) Because the value of the overdue accounts are decreasing every month and in the end the overdue accounts might have no value left and that means no money for the company. (Klinger 2012)

In addition to saving money and time, the company and the customers will learn more about each other. The outsourcing vendor will make sure that all the customers are aware of the payment policies in order to avoid late payments and other misunderstandings. It will also make a background check on the customers in order to achieve better knowledge of the customers and their credit history. Knowing the customers' backgrounds and current financial situations helps the company to prevent possible problems. With outsourcing AR the company doesn't have to be worried about collecting payments. The outsourcing vendor will contact customers in an early stage, because by this way the call will not look like it was a collection call. All the calls that the vendor is making are done by the name of the company that outsourced it AR, so it will not damage the reputation of the company. (Hartleb n.d.)

## 6 RESEARCH APPROACH AND METHODOLOGY

### 6.1 Research method

Every study has a research method that the writer or writers are using. The two most common methods that are used are called quantitative and qualitative. These two methods are extremely hard to separate from each other. Sometimes both of these methods are used together. (Hirsjärvi, Remes & Sajavaara 2013, 135-136)

Quantitative method is used when the study is based on already known theory and conclusions. It includes questions like: 'How much and how many'. The method produces exact results and numbers, which can be presented with statistics and graphs. The target group is not picked precisely; it is more like randomly picked. (Hirsjärvi etc. 2013, 140, 160)

Using qualitative method the purpose is to find and reveal new facts instead of confirming old theories like in quantitative method. The target group is selectively picked and every case is unique. Qualitative method is more like collecting information in a big picture in a natural and realistic situation. (Hirsjärvi etc. 2013, 161, 164)

In this study qualitative method was chosen, because the purpose was to find out what kind of outcomes the outsourcing had created. Every outsourcing case is unique and it has different impacts for the company, so there was no old certain results or theory that could have been followed.

### 6.2 Information collection

Outsourcing in general is a relatively new topic and it is developing all the time, which leads to the lack of book literacy. For finding the most relevant and newest information Internet was the best source. News, companies' websites and weblogs are the main sources in this thesis, but there are also a couple of books that have been used.

The empirical part of this thesis is conducted by using semi-structured theme interviews. It was a clear choice for this topic in order to receive wide answers. The purpose of the interviews is to get their personal experience about the outsourcing. What kind of outcomes they have faced since the outsourcing process began.

Main focus in this thesis is in outsourcing GL, AR and AP and how it affected on the Case Company. There will be four different interviews that are going to last about an hour. The interviewees are selected precisely. One or two members from GL AR, AP and Internal Accounting team will be selected and interviewed. Depending on the size of the team and the team members' availability. Selecting one or two members from each team will give enough diverse answers in order to find out the outcomes that have arouse due to the outsourcing.

Finding the right members in every team will be conducted with the help of the Case Company's manager. Once the suitable interviewees are found, they will be contacted by e-mail with a meeting request and an explanation of the interview. After the right interviewees are contacted they will be interviewed in a face-to-face situation in the Case Company's facilities.

The interview's structure is based on (see appendix) three different periods and in the end there will be an overall question. With these questions I will receive enough information to analyse all the outcomes that have risen. Once I know how the conditions and tasks have changed during these periods I can compare those to each other. After analysing and comparing the answers I will be able to make a conclusion.

### 6.3 Implementation

The interviews were conducted during three different days. I had the opportunity to interview Manager level employees from the following teams GL, AR, AP and Inter-company. Each interview lasted about 45 minutes and the structure of the theme interview was satisfactory in order to get enough extensive answers.

The following main chapter will represent the answers that I received from the interviews.

#### 6.4 Reliability and validity

Basis of a study is to make it as reliable and valid as possible. Both of these can be analysed and measured. The reliability means that the results of a study are reliable and not random results. To analyse the reliability of a study there can be used two different methods. If two or more persons give the same answer or one person gives the same answer twice in different situations the study can be determined as a reliable. Using that method in reviewing the results of this study we can determine that this study is reliable. For instance all of the interviewees mentioned that lowering costs was the main reason to outsource. This same study can be also conducted by another person and the results will be the same, so it also makes this study valid. (Hirsjärvi etc. 2013, 231)

In overall the information in this study can be determined as reliable as well as valid. Once another study is conducted or there will be more changes in the Case Company the information will be no longer valid. To insure that all the answers from the interviewees are valid I chose to use semi-structured theme interviews in order to make sure all the interviewees understood the purpose of the questions. (Hirsjärvi etc. 2013, 231-232)

## 7 END RESULTS

### 7.1 Time before outsourcing

According to the interviewees the main reason for outsourcing the F&A services was clearly the cost. The earlier model that was used worked just fine. It was just too expensive and it had a high pricing structure. The decision was to hire more employees or outsource the process. It is not a surprising anyone that the main reason behind the outsourcing was cost-savings, because as it is said in the theoretical part, money matters. Reducing the cost is the biggest reason why companies outsource their processes. After that comes reasons like: achieving higher performance and focus on core competence. So in this case money was the reason, but I also think that moving the F&A services to India the Case Company achieved more time to focus on core competence.

Another reason that was said during the interviews was the changes in future. Knowing that the operations will grow even more, and more companies will be involved. Harmonization was needed. With outsourcing the Case Company would have a shared service, a one common unit and a system. By this all the accounts and units would be performing under in one place and within the same rules. These changes will have an impact on the Case Company's performance. Having the common solution allows the company to work with higher performance and more efficiently.

### 7.2 During the outsourcing process

The first challenge during the outsourcing process began even before it has started. First it affected the employees' attitudes. Most of the employees' were not expecting it to happen. It aroused different kind of responses. Some of the employees got really angry and left. Those ones who understood the situation kept working and prepared to adapt to the changes. Motivating employees was a really challenging task. Knowing that your current job is about to end and you still have to keep working. A good attitude was the key to overcome the fear and irateness that had built up.

Second big challenge was the cultural differences. Outsourcing into a totally different country caused a lot of misunderstandings. For example details were understood differently. All the instructions had to be precise, in order to the employees from the service provider to understand. And still it caused misunderstandings. The employees from the vendor's side needed more guidance and asked more questions than it was expected. In overall the communication between the service provider was a really challenging task.

There were also several other challenges that occurred during the outsourcing process. Lack of earlier outsourcing experience was one challenge. Having no earlier experience caused uncertainty. Employees did not know what to do or what is going to happen next. An outside consultant was hired in order to help the Case Company concerning the outsourcing process. The lack of outsourcing experience also affected time management. Implementation and data transferring took more time than it was expected. All the errors that happened during the process were an arduous task to clean and it took too much time.

It is quite stunning that all the previously stated challenges became as a surprise for the Case Company. Outsourcing offshore is the most challenging outsourcing model and it is really "high risk, high reward" model. It comes with the most challenges just like the cultural differences and anxiety between employees. But I still have to say that the sizes of these challenges are bigger than I expected.

### 7.3 Current situation

Now all the operative work has been transferred to India, the Case Company's employees in Finland are concentrated on monitoring and developing processes. The responsibility for the service is now on the hands of the Case Company's employees. There is now more time to focus on the core competence, in other words more time to monitor, control, manage and develop the processes. The interviewees still felt that the monitoring takes too much time and there should more time for development. In my opinion not having enough time means that the processes needs to be developed even more in order to have enough time to focus on the core competence.



### 7.3.1 Advantages

In overall there are not so many advantages that were gained according to the interviewees, which is obvious because the main reason for outsourcing was to reducing the costs. Having the processes now in India, the Case Company does not have to hire and train more employees in order to perform. The biggest functional advantages for the Case Company are achieving the scale advantage and more efficient processes. With global processes the Case Company got better hold of the customer. Now there is a common set-up that brings discipline and more power for the Case Company. In my opinion it is best for the Case Company that now there is a one common solution that makes everything clearer.

After all the Case Company saved money and that was the main goal, but it has aroused questions, was outsourcing to India the right option or should have it been Poland where to outsource. Instead of using offshore model, nearshore model could have been a good solution for the Case Company, because it offers the same processes with less risks and challenges. With nearshore there would not be the same cultural challenges that leads to misunderstandings. The question to ask is: “is it worth of paying a little bit extra to have easier arrangements and maybe better quality?” All of these thoughts could have been avoid if there have been used more time when selecting the provider.

### 7.3.2 Challenges

During the interviews there were three major challenges stated that are still on going. Cultural difference is one of them. There are still a lot of misunderstandings on the vendor's side. Instructions are understood differently and support is needed. Sometimes they need to be encouraged and pushed to get the job done. A hierarchical change inside the vendor's organisations causes some silly mistakes. Employees on the vendor's side have been promoted and new inexperienced employees are taken the places. This has an effect on quality and some customers are not pleased by it. In order to mitigate the challenges that differences between the cultures caused, a cul-

tural training should have been conducted before the outsourcing process started according to one of the Case Company's Service Managers.

The second challenge is the quality issues that have occurred. Now there are so many teams, steps and more work to do, in other words there are too many factors involved. It is extremely challenging to solve and find the right person in case of errors. Clearing old problems is a big challenge. The fast pace in documentation leads to lack of time in going through all of it. Not enough time to analyse it, just accepting it. Altogether the amount of documents has increased, but the percentage of incorrect documents is in an acceptable level so it is not a big concern. The quality of the documents is still not good. It is hard to follow the work not knowing how the performing is done on the vendor's side. As it was already mentioned, the hierarchical changes on the vendor's organisation affects also on the quality as well as all of these previously mentioned challenges.

A good quality usually guarantees a good customer service satisfaction. All of these previously mentioned challenges that were stated during the interviews have a negative impact on customer service. According to the interviewees the customer service is not on the same level than it was before the outsourcing. Actually in the beginning it was really terrible, but now it has improved. And there is still a need for an in-house service centre to insure the quality of the customer service.

All of these challenges that the Case Company is still facing makes me think about more and more was the offshore the right choice. I might be wrong, but overcoming all the challenges sounds quite absurd.

#### 7.4 Summary

Having enough time and resources are the basis for a successful outsourcing project. In this case the interviewees stated there was not enough time reserved for the outsourcing process. Having the global implementation process and FAO process at the same time caused too much work in a short period. Underestimating how big the processes are lead to mistakes and lapse of memories. Earlier experience on out-

sourcing would have been suitable, because people were uncertain of what is happening and what to do.

The implementation was extremely challenging and time consuming and in addition to that the data transmission that was not successful on behalf of the service provider. It is not unusual that transferring the processes was extremely challenging, because it is the most hardest and challenging phase in the FAO life cycle. The SLAs that were created in order to monitor the performance could not be trusted. Those were not trustworthy and were created in favour of the service provider. SLAs need to be developed more detailed versions. As one Service Manager described the SLAs: “it is like a melon, green on the outside, red on the inside.”

There is still a lot of work ahead in order to get the whole process ready and functional. The processes are being developed all the time in order to achieve even better functionality and quality. Treating the Service Provider’s employees, as Case Company’s own employees and giving structured feedback will help in getting the quality back to its old level. Nowadays the challenge is to get everyone to understand the Case Company’s business and what it requires in order to operate.

Some of the interviewees said that they had high hopes for the service provider, but now they feel a little bit disappointed. The service provider offered more than it actually provided. But also the Case Company trusted too much on what was said on behalf of the service provider.

## 8 CONCLUSION

In overall all the interviews that were conducted were successful. Enough information was received in order to make a final conclusion about the outcomes of the outsourcing the finance and accounting services in the Case Company.

According to the interviewees the whole outsourcing process was successful, although some of them feel disappointed. In my opinion the two biggest challenges that occurred during the whole process and during the present time are cultural differences and lack of outsourcing experience. These two factors are so highly influential and those cause even more challenges. In order to avoid these two major challenges a cultural education should have been conducted before outsourcing. That would have been mitigated the amount of misunderstandings and it would have been improved the communication. Using more external help and maybe hiring another consultant could have compensated the missing experience on the outsourcing field.

Both of the previously mentioned challenges reflect on unprepared planning. All the decisions were made among the top management and employees at grass roots level were not enquired or informed. Better inhouse communication between white-collar and blue-collar worker could have prevented these challenges from occurring.

Now the Case Company's next step is to concentrate on educating themselves, improving and developing the processes to achieve even better efficiency and quality. Also thinking about the future of the partnership with the Service Provider should not be forgotten. Taking the services back inhouse is not a smart move, so it leaves the Case Company with two options; renew or renegotiate a new contract. Maybe consider on transferring the services nearshore where the current service provider also has a unit. With that transformation the Case Company could reduce challenges that the cultural differences has brought and also achieve better quality. Having the services performed nearshore, it also eases the barrier to travel and the face-to-face meetings would not require so much resource.

## 9 FINAL WORDS

The idea behind of this thesis started during my internship at the Case Company. I was given two topics, which to choose. Studying outsourcing and its outcomes sounded more interesting than studying SAP. With this thesis I got the opportunity to wide my knowledge of business process outsourcing. Now I am aware of how the outsourcing affects on business and how it is actually done in real life.

In my opinion this study was important, because outsourcing the finance and accounting services is not been widely studied. All the objectives that were set for this thesis were reached and I was able to give some suggestions for the Case Company. I am pleased about the results that I got and it will benefit the Case Company and possibly other companies that are considering outsourcing. Focusing only outcomes that are related on the performance left an opportunity to make another study, which would concentrate on the economic outcomes.

Thinking through this whole thesis process, I have to admit it was a challenging journey. The schedule that I made for this thesis changed a few times, but it did not raise any irritation. I would like to give big thanks to my supervisor for being flexible and supportive. With her guidance I was able to finish this thesis in November and graduate before the Christmas 2015 as planned.

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THEME INTERVIEW

**1. Time before outsourcing**

- Challenges
- Reasons for outsourcing
- Goals for outsourcing

**2. During the outsourcing process**

- Challenges

**3. Current situation**

- Workload
- Challenges
- Benefits

**4. Overall advantages**

**5. Overall disadvantages**